Bakrie Minarak Energy Inc.

1998 Annual Report

CORPORATE PROFILE

Bakrie Minarak Energy Inc. (formerly Clayoquot Resources Ltd.) is an Alberta based, international oil and gas exploration company.

The Company was incorporated in July 1994 and concentrated its activity in Western Canada for three years.

Effective October 1, 1997, Minarak Labuan Company (L) Ltd., a subsidiary of the Bakrie Group of companies of Indonesia, acquired 24,000,000 common shares of the Company. On December 22, 1997, the Company changed its name to Bakrie Minarak Energy Inc.

Concurrent with the equity investment of the Bakrie Group, the Company acquired a working interest in a Production Sharing Agreement covering Block R-2 in the Republic of Yemen.

On September 30, 1998 the Company issued 8,759,000 common shares as consideration for the acquisition of all of the issued shares of Midwest Energy Companies Limited and Hadson France SNC. Through these acquisitions, the Company acquired working interests in an onshore exploration license in the United Kingdom and two onshore exploration permits in France.

Because of the new focus on international activities and the minor nature of its Canadian assets, the domestic properties were sold December 15, 1998.

The common shares of the Company trade on the Alberta Stock Exchange under the symbol BAK.A.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders will be held on Monday, June 7, 1999, at 10:00 a.m. in the Viking A Room at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

ABBREVIATIONS

bbl = barrels

bbl/d = barrels of oil per day

Mbbl = thousands of barrels

MMbbl = millions of barrels

Mcf = thousand cubic feet

MMcf = million cubic feet

bcf = billion cubic feet

tcf = trillion cubic feet

Mcf/d = thousand cubic feet per day

MMcf/d = million cubic feet per day

NGL = natural gas liquids

REPORT TO SHAREHOLDERS

During 1998, Bakrie made very good progress in its plan to become an active and successful international oil company. It increased its working interest in the 700,000 acre Block R-2 Yemen to 50% and the first exploration well was drilled. Two working interests onshore France, one a 25% working interest in the Paris Basin, the other a 100% working interest in the Aquitaine Basin, plus a majority working interest in an exploration license in the Weald Basin onshore the United Kingdom, were acquired. These three projects in Europe were all acquired in return for common shares of Bakrie. Bakrie now has the beginnings of a quality, diversified exploration portfolio.

Consistent with its new strategy of becoming an international company, Bakrie sold the remainder of its Canadian properties effective December 15, 1998 for cash. With the decision to sell the Canadian properties, Mr. Ian Henderson relinquished his position as Vice President of Canadian Operations.

Bakrie funded its share of expenditures in 1998 through a combination of working capital and private placements of equity. With the decrease in oil prices and the current view of the petroleum industry by the equity markets, it was not possible to raise additional equity in the public market. As a result, at year end Bakrie owed its parent company for a portion of its share of the Yemen expenditures. Additional capital will have to be raised, or farmouts of an interest in one or more of the projects made, in order to finance planned exploration in 1999.

During the year, Mr. John Burns relinquished his positions of Chief Executive Officer and Director to pursue other interests. Bakrie subsequently made an agreement with Sterling Resources Ltd. to take over the management and administrative functions in return for an interest in the UK and Aquitaine Basin properties.

With the state of oil prices and equity markets for oil and gas companies, 1999 could be a difficult one for oil and gas companies. Nevertheless, we are confident that both will recover and that Bakrie will grow and succeed in the international oil and gas business.

On behalf of the Board of Directors,

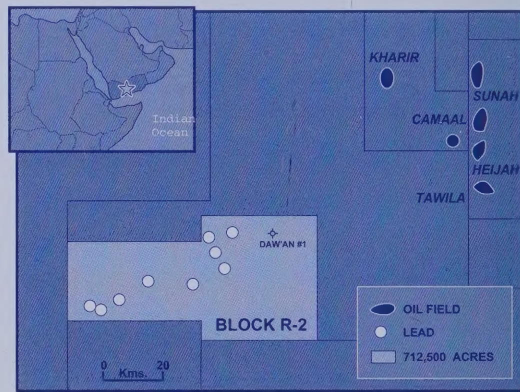
Nirwan D. Bakrie
CHAIRMAN

Robert G. Welty
PRESIDENT AND CHIEF EXECUTIVE OFFICER

April 15, 1999
Calgary, Alberta

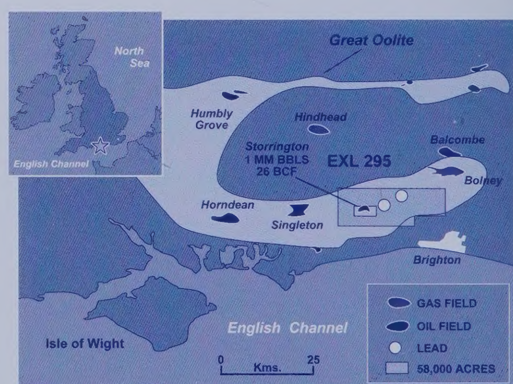
OPERATIONS REVIEW

In Yemen, Bakrie drilled an exploration well on the 700,000 acre R-2 Block to test a large uplifted structural feature. Daw'an #1 targeted the Qishn sandstones that produce oil in the Masila and East Shabwa blocks to the northeast. The well reached a total depth of 1,380 meters with positive indications of hydrocarbon in the mud tanks, in core samples and on logs. Log analysis using ELAN with cutoff porosity greater than 15% and water saturation less than 55% suggested that approximately 54 meters of sand exhibited oil saturation. Two separate tests over intervals 1,342-1,349 m and 1,297-1,306.5 m had similar results with each producing over 1,500 barrels of water per day with oil shows. Data from Daw'an #1 will assist in the re-evaluation of seismic lines over other structures on the Block. Bakrie's working interest on the R-2 Block is 50%.



YEMEN

On September 30, 1998 Bakrie purchased the UK and French subsidiaries of Midwest Energy Companies Inc. of Tulsa, Oklahoma for a consideration of 8,759,000 common shares. Onshore in the United Kingdom, the Company acquired, subject to regulatory approval, a 75% to 100% working interest in an exploratory license located 40 kilometers south of London. EXL 295 comprises 58,320 acres and past work programs satisfied work obligations through to February 1, 2001. The license is on the south flank of the Weald Basin on the east-west trending Henfield Anticline. The primary reservoir objective is the 200-foot thick Great Oolite formation of Jurassic age that produces oil and gas from several fields nearby. One of these is Storrington, a field completely surrounded by EXL 295 that began producing in 1998 at restricted rates of 600 bbl/d and 1 MMcf/d. A 1997 study of EXL 295 identified multiple extensional and exploratory drilling prospects that will be the subject of a technical and economic evaluation in 1999.

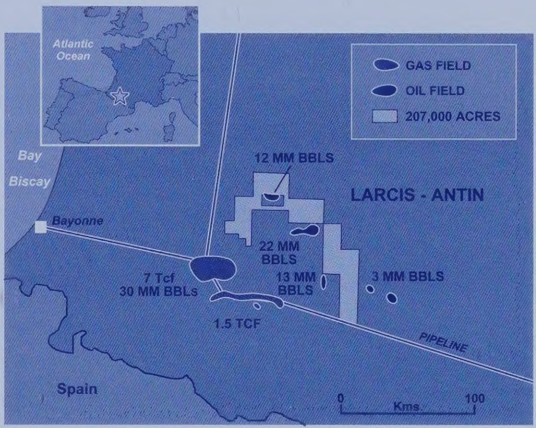


ENGLAND

The Company also acquired from Midwest a 100% working interest in the 207,000 acre Larcis-Antin Permit located in the Aquitaine Basin in southern France. The permit is approximately 30 miles northeast of the 10 trillion cubic feet Lacq gas field and is adjacent to the La Grave, Vic Bihl and Pecorade oil fields that together have produced over 50 million barrels of oil. Bakrie was attracted to this area because of favorable fiscal terms in France, high hydrocarbon reserve recoveries per well drilled and the under-explored nature of the Aquitaine Basin. In 1999, seismic and geological studies will be conducted with a view to setting the future exploration program.

In the Paris Basin, Bakrie has a 25% working interest in the Courgivaux license that covers an area of 65,455 acres. In 1999, a geological and geophysical study will determine the hydrocarbon potential of the area.

In Canada, Bakrie's oil and gas properties were sold for cash proceeds of $295,000 effective December 15, 1998. This sale will allow Bakrie to focus on international projects that have the potential for substantial growth.



FRANCE

FINANCIAL REVIEW

Financial information is not directly comparable as the Company's reporting period in 1997 was only for a three-month period.

For 1998 cash flow from operations was a negative $801,289 primarily because of the low production from the Canadian properties which were the Company's sole source of revenue. As stated elsewhere in this report, these properties were sold effective December 15, 1998. Earlier in the year these properties were written down by an amount of $605,561. Subsequently, the sale resulted in a loss of $11,107.

The total net loss for the year amounted to $1,559,573.

Working capital at December 31, 1998, including amount due to and from affiliates, was a negative $1,428,030. Excluding the affiliated company balances, working capital was in a minor negative position of $10,735.

YEAR 2000

The Company has developed a plan to deal with the year 2000 issue and has identified areas of focus both internally and externally. Our approach has always been to ensure that there is no disruption to Bakrie's business or the systems that support the running of the business. While the Company has a comprehensive plan to address the year 2000 issue, it is not possible to be certain that all aspects of the problem will be fully resolved, particularly with respect to our business associates.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the information contained in this Annual Report.

The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Where necessary, management has utilized estimates using outside consultants or other relevant information, especially in those instances where current operations are influenced by expected future events.

Management has implemented and maintained a system of internal controls which are designed to provide reasonable assurance that assets are safeguarded from loss and that transactions are maintained in a careful manner to provide reliable financial information.

The Audit Committee of the Board has reviewed the financial statements with management and with PricewaterhouseCoopers LLP, the Corporation's external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Robert G. Welty,
President & Chief Executive Officer

D Powell

David E. Powell,
Director

AUDITORS' REPORT

To the Shareholders of Bakrie Minarak Energy Inc.

We have audited the consolidated balance sheets of Bakrie Minarak Energy Inc. as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
March 22, 1999

CONSOLIDATED BALANCE SHEETS

As at December 31	1998	1997
	$	$
Assets		
Current assets		
Cash	43,631	25,221
Accounts receivable (note 4)	348,799	226,311
Due from affiliated companies (note 8(b))	125,159	413,403
Deposits	56,766	66,205
	574,355	731,140
Capital assets (notes 3 and 4)	21,125,595	15,041,248
	21,699,950	15,772,388
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	312,884	125,623
Due to affiliated company (note 8(b))	1,542,454	–
Loans from director (note 8(c))	147,047	–
Provision for abandonment costs	–	62,692
	2,002,385	188,315
Shareholders' Equity		
Share capital (note 6)	25,836,274	20,163,209
Deficit	(6,138,709)	(4,579,136)
	19,697,565	15,584,073
	21,699,950	15,772,388

Basis of presentation (note 1)

Contingency (note 11)

Approved by the Board of Directors

Robert G. Welty
Director

David E. Powell
Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the year ended December 31, 1998 and for the period from October 1, 1997 to December 31, 1997

	1998	1997
	$	$
Revenue		
Oil and gas, net of royalties	254,062	134,123
Other	1,812	–
	255,874	134,123
Expenses		
Production	264,149	75,338
General and administrative	786,950	114,096
Depletion and amortization (note 4)	747,177	35,800
Loss on sale of capital assets (note 4)	11,107	
	1,809,383	225,234
Loss before income taxes	(1,553,509)	(91,111)
Capital taxes	(6,064)	–
Net loss for the period	(1,559,573)	(91,111)
Deficit - Beginning of period	(4,579,136)	–
Acquisition of oil and gas properties (note 8)	–	(4,488,025)
Deficit - End of period	(6,138,709)	(4,579,136)
Loss per share (note 6)	0.05	0.01

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 1998 and for the period from October 1, 1997 to December 31, 1997

	1998	1997
	$	$
Cash flows from operating activities		
Net loss for the year	(1,559,573)	(91,111)
Items not affecting cash -		
Depletion and amortization	747,177	35,800
Loss on sale of capital assets	11,107	–
Cash flows from operations	(801,289)	(55,311)
Changes in non-cash operating working capital items	362,456	(59,191)
	(438,833)	(114,502)
Cash flows from financing activities		
Issue of common shares to Minarak Labuan Co. (L) Ltd., net of issue costs	–	17,937,899
Issue of common shares for Clayoquot Resources Ltd.	–	1,543,712
Issue of common shares for Midwest Energy Companies Limited and Hadson France SNC, net of issue costs	4,374,200	–
Issue of shares for cash - net of costs	31,037	600,598
Issue of shares for services	1,267,829	–
Stock options exercised	–	81,000
Repayment of operating loan	–	(25,000)
Loans from director	147,047	–
Advance from parent company	1,542,454	–
	7,362,567	20,138,209
Cash flows from investing activities		
Acquisition of Clayoquot Resources Ltd. (net of cash)	–	(1,100,010)
Acquisition of Midwest Energy Companies Limited and Hadson France SNC (net of cash)	(4,376,506)	–
Additions to capital assets	(3,303,787)	(18,483,073)
Advances to related companies	–	(415,403)
Proceeds on disposition of capital assets	774,969	–
	(6,905,324)	(19,998,486)
Increase in cash	18,410	25,221
Cash - Beginning of period	25,221	–
Cash - End of period	43,631	25,221

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998 and 1997

1. Basis of presentation

Clayoquot Resources Ltd. ("Clayoquot") was incorporated as a Junior Capital Pool company under the Business Corporations Act (Alberta) on July 18, 1994. Clayoquot completed its major transaction and obtained an exchange listing on the Alberta Stock Exchange on February 18, 1995. On October 1, 1997, Clayoquot issued 24,000,000 common shares at a price of $0.75 per share to Minarak Labuan Co. (L) Ltd. ("ML"), a subsidiary of the Bakrie Group of companies in Jakarta, Indonesia, and Clayoquot became a subsidiary of the Bakrie Group. In addition, on December 22, 1997, Clayoquot changed its name to Bakrie Minarak Energy Inc. (the "company").

Prior to the date of the equity issue to ML, the company had directed the major portion of its activity toward optimization of production from Canadian oil and gas assets. As of December 15, 1998, all of the Canadian properties were sold. Since the date of the equity issue with ML, the major activities of the company have been directed toward the exploration and development of petroleum resources within the area covering the East Shabwa Block R2 ("Yemen Property") in the Republic of Yemen and in petroleum licenses in the U.K. and France acquired through its Midwest acquisition in 1998 (refer note 3).

At December 31, 1998, the company has three cost centres; Yemen, United Kingdom, and France, which are considered by management to be in the pre-production stage as the company has not yet commenced commercial production. As a result, all costs associated with such activities, net of revenues, have been capitalized and recorded as oil and gas property expenditures. The ultimate recovery of these costs is dependent upon the discovery of economically recoverable reserves, the maintenance of the necessary agreements, the continued support of the Bakrie Group, the ability to obtain the financing necessary to complete the development of the properties or entering into joint venture arrangements with industry partners.

2. Accounting policies

Consolidation

These financial statements include the accounts of Bakrie Minarak Energy Inc. and its wholly owned subsidiaries Minarak Energy (Jersey) Ltd., Minarak Energy (UK) Limited and Hadson France SNC.

Oil and gas properties

The company follows the full cost method of accounting whereby all costs of exploration for and development of oil and gas reserves are capitalized on a country by country cost centre basis. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and administrative expenses related to exploration activities. All recoveries of costs through sale of petroleum and natural gas properties are credited against the cost of oil and gas properties, except when a disposition would result in a significant change in the company's depletion rate, in which case a gain or loss is computed and recognized.

Costs accumulated within each cost centre are depleted using the unit-of-production method based on estimates of gross proved reserves before royalties and combines oil and natural gas on an energy equivalent basis.

Costs of exploration in new cost centres, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

Joint ventures

Substantially all the exploration and development activities related to oil and gas are conducted jointly with others. These financial statements reflect only the company's proportionate interest in such activities.

Office equipment

Amortization of office equipment is based on the amortized useful life and is calculated using the declining balance method at a rate of 20% per year.

Income taxes

The company follows the tax allocation method of accounting for the tax effect of the timing difference between taxable and accounting income. Timing differences arise when the company claims capital cost allowances, resource deductions and other expenditures for tax purposes in amounts differing from those charged to expenses in the financial statements.

Segmented information

The company currently conducts all of its activities in the oil and gas industry in Yemen, France and the U.K.

Foreign currency translation

Foreign currency denominated monetary assets and liabilities are translating to Canadian dollars at the exchange rate in effect at the balance sheet date. Foreign currency gains and losses are included in earnings of period in which they arise.

3. Business combinations

Reverse takeover

On October 1, 1997, Minarak Labuan Co. (L) Ltd. ("ML"), a subsidiary of Bakrie InterInvestindo Co. Ltd. (a privately held Indonesian company) ("BI") acquired 24,000,000 units of the company for $0.75 per unit realizing net proceeds of $17,937,899 after issuance costs of $62,101. Each unit consisted of one Class A common share and one Class A common share purchase warrant.

Concurrent with this issuance of shares, the company acquired for a cash consideration of U.S. $4,288,984 (note 8), a 1/3 interest in the Yemen Property and an option to earn an additional 16 2/3% from Bakrie Minarak Petroleum Ltd. ("BMP"), a subsidiary of ML.

As a result, for accounting purposes, ML was deemed to have acquired Clayoquot and accordingly the acquisition has been accounted for as a reverse take-over. As a result, these financial statements include the results of operations of Clayoquot from October 1, 1997. The assets and liabilities of Clayoquot are included in these financial statements at their fair values from the effective date of the transaction.

The fair value of the net assets acquired by ML were allocated as follows:

	$
Cash	443,702
Accounts receivable	170,002
Capital assets	1,075,000
Accounts payable and accrued liabilities	(62,300)
Provision for abandonment costs	(57,692)
Long-term debt	(25,000)
	1,543,712

Midwest Energy Companies

On April 17, 1998, the company signed a letter of agreement to acquire all of the outstanding shares of Midwest Energy Companies Limited and Hadson France SNC, two wholly owned subsidiaries of Midwest Energy Companies Inc. ("MECI") of Tulsa, Oklahoma, in exchange for issuing 8,759,000 common shares of the company, plus $208,216 cash deposit which had been paid to MECI in 1997.

The purchase price was allocated to the company's assets as follows:

Net assets acquired

	$
Working capital	2,994
Petroleum and natural gas properties	
United Kingdom	3,362,006
France	1,222,716
	4,587,716

Consideration

Shares issued at 50 cents per share	4,379,500
Cash	208,216
	4,587,716

4 . Capital assets

	Cost	1998 Accumulated depletion and amortization	Net
	$	$	$
Canada			
Oil and gas properties	–	–	–
Office equipment and leasehold improvements	263,666	3,145	260,521
	263,666	3,145	260,521
Yemen			
Oil and gas properties	16,551,339	–	16,551,339
France			
Oil and gas properties	1,144,192	–	1,144,192
UK			
Oil and gas properties	3,169,543	–	3,169,543
	21,128,740	3,145	21,125,595

	Cost	1997 Accumulated depletion and amortization	Net
	$	$	$
Canada			
Oil and gas properties	1,213,717	30,100	1,183,617
Office equipment	13,162	700	12,462
	1,226,879	30,800	1,196,079
Yemen			
Oil and gas properties	13,636,853	–	13,636,953
France			
Oil and gas properties	208,216	–	208,216
	15,071,948	30,800	15,041,248

During 1998, the company, with its joint venture partner, ML, drilled the first well on the Yemen Property which was completed in 1999 and abandoned after testing. The company's plans are to continue further exploration on their 700,000 acre block. As a result, at December 31, 1998 management believe that activities to date do not indicate impairment exists in the carrying value of its Yemen oil and gas assets. Of the costs incurred in 1998 on the property, an amount of Cdn. $1,267,829 was funded through the issuance of shares by the company (note 6). These issuances were approved by the Alberta Stock Exchange.

The drilling of the well fulfilled the work commitment required by the joint venture on Block R2 through to March 3, 2000.

Administration expenses related to exploration and development activities were capitalized as part of oil and gas properties expenditures in Yemen in the amount of $506,064 in 1998 and $308,331 in 1997.

Effective December 15, 1998, the company sold its Canadian oil and gas properties for net proceeds of $280,713, resulting in a loss on disposition of $11,107. At June 30, 1998, the company had written down the value of these properties by $605,561. Included in accounts receivable at December 31, 1998 is an amount due from the sale of the properties of $264,000.

5. Services agreement

Effective June 1, 1998, the company entered into a Services Agreement with Sterling Resources Ltd. ("Sterling"), an unrelated company, whereby Sterling will provide the company with administrative, executive and technical management services in exchange for a 20% interest in the company's U.K. oil and gas property and a 33 1/3% interest in a French oil and gas property. These interests are earned by Sterling by providing services to the company until December 31, 1999. In the event that Sterling terminates this contract prior to December 31, 1999 it must pay a cash penalty on a reducing basis or return its interest in the properties. In the event that the company terminates this contract prior to December 31, 1999, Sterling will retain these interests for no further consideration.

For the year ending December 31, 1998, the company has recorded $341,387 in G&A costs relating to the services contract, with a similar reduction to capital assets.

6. Share capital

Authorized

An unlimited number of Class A common shares

An unlimited number of first or second preferred shares, issuable in series

Class A Common shares issued and issuable	Number of shares outstanding	Amount
		$
Balance - January 1, 1997	5,210,000	–
Issued to Minarak Labuan Co. (L) Ltd.		
(net of share issuance costs of $62,101) (note 3)	24,000,000	17,937,899
Issued for cash through private placements	685,340	625,598
Stock options exercised	300,000	81,000
Reverse take-over of Clayoquot Resources Ltd. (note 3)	–	1,543,712
	30,195,340	20,188,209
Less: Amounts unpaid	–	(25,000)
Balance - December 31, 1997	30,195,340	20,163,209
Issued through private placements		
For cash	58,560	31,036
For services	2,483,931	1,267,829
Issued for acquisition of Midwest Energy Companies Limited	6,730,000	3,365,000
Issued for acquisition of Hadson France SNC (note 3)	2,029,000	1,014,500
Share issue costs	–	(5,300)
Balance - December 31, 1998	41,496,831	25,836,274

At December 31, 1998, 24,000,000 (1997 - 24,000,000) shares held by ML are held in escrow.

Stock options

Pursuant to the terms of a stock option plan, options may be granted to directors and certain key employees to purchase common shares of the company. At December 31, 1998, options to acquire 1,095,000 (1997 - 620,000) common shares at prices ranging from $0.22 to $0.75 per share were outstanding. Options expire 5 years after the date granted. During the year, 475,000 options were issued.

Shares issued for services

During the year, shares were issued to two companies as partial consideration for drilling and other services on the Yemen property.

Warrants

As at December 31, 1998, there were 24,000,000 warrants issued and outstanding which are convertible into an equal number of common shares for payment of $0.75 per warrant. These warrants expire on September 30, 1999 and are held by ML and are held in escrow.

Loss per share

Basic loss per share is calculated based on the weighted average of 32,477,400 (1997 - 11,600,139) common shares outstanding during the period. The effect of exercising options and warrants on loss per share is anti-dilutive in 1998 and 1997.

7. Income taxes

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial income tax rate of 44.6% to earnings before taxes. The reasons for this difference are as follows:

	1998	1997
	$	$
Loss before taxes	(1,553,509)	(91,111)
Expected tax recovery	(699,080)	(40,640)
Crown royalties	39,280	4,210
Non tax base depletion	–	7,000
Benefit of loss carryforward not recognized	659,800	29,430
Deferred income taxes	–	–

8. Related party transactions

a) Acquisition of Yemen Property

On October 1, 1997, the company received $18,000,000 (US $13,050,000) from the issuance of 24,000,000 units to ML, a subsidiary of Bakrie InterInvestindo Co. Ltd. ("BI") at $0.75 per unit. Each unit consists of one Class A common share and one Class A common share purchase warrant.

Effective April 1, 1997, the company entered into a farm-out and option agreement with Bakrie Minarak Petroleum Company Ltd. ("BMP"), a company owned 90% by ML and 10% by the former President and Chief Executive Officer of the company, whereby the company earned an undivided 33.33% working interest, with an option (the "Option") to acquire a further 16.67%, in a Production Sharing Agreement ("PSA") in Yemen. Pursuant to this transaction, the company became operator of the Block. The company reimbursed BMP for its proportionate share of the acquisition costs and preliminary field geological program carried out on behalf of BMP by BI amounting to US $4,288,984.

The Option allowed the company to earn a further 16.67% working interest in the PSA by the payment of 100% of the costs on Block R2 up to an amount of U.S. $14,600,000 which included the initial $4,288,984 payment for a 33.33% interest in the PSA. The company exercised its Option on May 21, 1998.

As of December 31, 1998, the company had made expenditures totalling U.S. $13,477,748 pursuant to the farm-out and option agreement and, subsequent to year-end, completed its obligation with respect to the earning of the additional 16.67% interest.

As certain expenditures were between companies under common control in 1997, for accounting purposes the working interests acquired have been recorded at the vendor's carrying amount in accordance with Canadian generally accepted accounting principles. During 1997, an amount of $4,488,025 being the difference between the payments made to affiliates in the Yemen Property and the actual costs incurred by the affiliates was charged to retained earnings. In 1998 the company has capitalized all of its costs associated with the earning of the further 16.67% interest and no amounts have been charged to retained earnings.

b) Due to and from affiliated companies

At December 31, 1998, BMP owed the company $125,159 (1997 - $206,484) in respect of advances and the company owed BI $1,542,454 (1997 - due from $206,919) in respect of joint venture expenditures on the Yemen Property. These amounts are unsecured, payable on demand and are non-interest bearing.

c) Loans from a Director

Loans from a Director in the amount of US $100,000 are payable on demand and bears interest at prime plus 1%.

d) Acquisition of office equipment and leasehold improvement

During the year, the company acquired certain office equipment and leasehold improvements from BMP for $250,000 which approximated the fair value of these assets.

9. Financial instruments

The company's financial instruments recognized in the balance sheet consist of cash, accounts receivable, and accounts payable and accrued liabilities and due from affiliated companies, the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

The company has not entered into derivative financial instruments to manage its exposure to commodity risk.

10. Segmented information

	Canada	Yemen	U.K.	France	Corporate	Total
	$	$	$	$	$	$
December 31, 1998						
Assets	–	16,551,339	3,169,543	1,144,192	834,876	21,699,950
Net earnings (loss)	(742,359)	(14,241)	(8,643)	(1,316)	(793,014)	(1,559,573)
December 31, 1997						
Assets	1,567,816	13,636,953	–	208,216	359,403	15,772,388
Net earnings (loss)	22,985	–	–	–	(114,096)	(91,111)

11. Contingent liabilities

In August, 1998, the company was named as one of the parties in a statement of claim by the former President and Chief Executive Officer of the company. The statement of claim asks that the company recognize an alleged royalty the former President and Chief Executive Officer claims is due him on the Yemen Property from companies related to the company. No monetary damages are being sought against the company, however, the claim requests specific performance.

The company denies it has any responsibility to recognize the alleged royalty and has filed a statement of defence. In the opinion of the company's legal counsel, the claim against the company is without merit.

12. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. Subsequent events

Subsequent to year-end, the company issued 1,284,698 common shares for a cash consideration of $680,890. The proceeds were used to fund capital expenditures on Block R2.

CORPORATE INFORMATION

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Harry J. F. Bloomfield, Q.C., MONTREAL, QUEBEC
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Ian D.Henderson, CALGARY, ALBERTA
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OFFICERS

Nirwan D. Bakrie, CHAIRMAN OF THE BOARD
Robert G. Welty, PRESIDENT & CHIEF EXECUTIVE OFFICER
Joesril A. Hainim, VICE PRESIDENT
Thomas W. Robinson, SECRETARY
Leigh D. Stewart, ASSISTANT SECRETARY
Sherry L. Cremer, ASSISTANT SECRETARY

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